

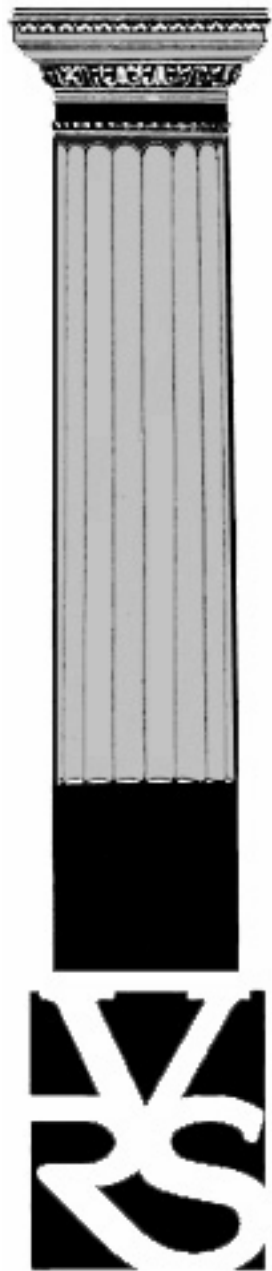
The
**Virginia
Retirement
System**

*Presentation to the
Joint Legislative Audit and Review
Commission*

July 10, 2000

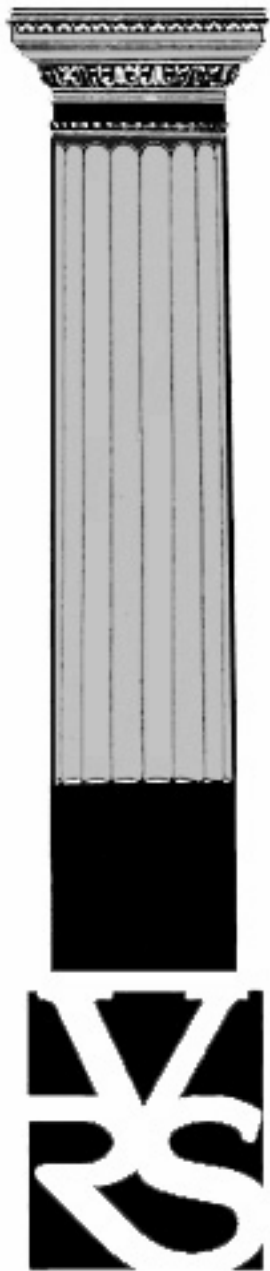
Bill Leighty, Director

Nancy Everett, Chief Investment Officer



1994 JLARC Recommendations (1)

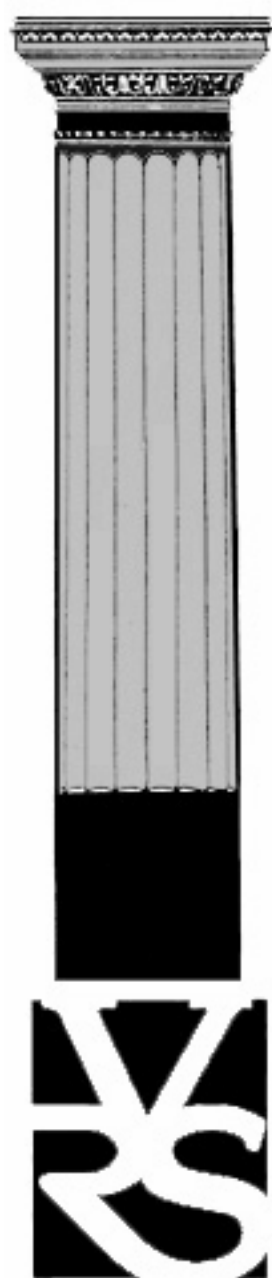
- Improve independence and quality
 - » Revamp VRS Board of Trustees and strengthen its Advisory Committees
 - » Codify CIO position
 - » Establish JLARC's role as legislative oversight for the VRS
- Strengthen investment policies and performance



1994 JLARC

Recommendations (II)

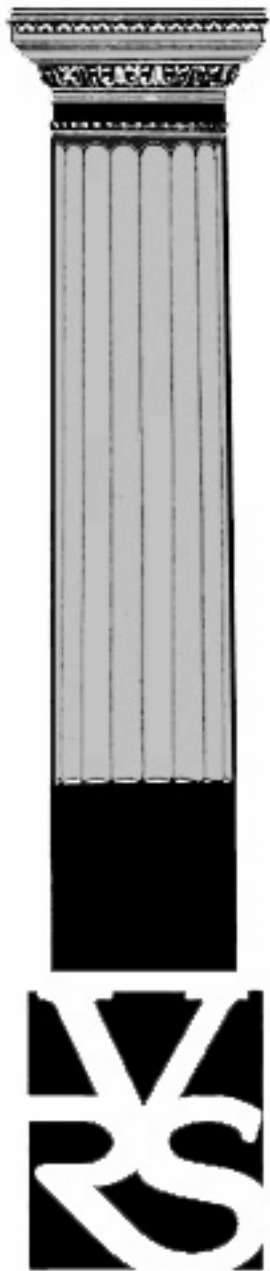
- Review actuarial practices
 - » Establish a funding target
 - » Examine trends in funded status, consider alternative funding methods
 - » Modify actuarial process to recognize timing lags, and consider the amortization period for unfunded liabilities, actuarial gains and losses, actuarial changes, etc.
 - » Analyze economic actuarial assumptions, demographic assumptions and long-term implications of changes in assumptions
 - » Analyze the current actuarial losses for likely recurrence
- Review of the VRS actuarial valuation every five years



VRS Membership Distribution

State	77,096
Teacher	123,090
Pol. Sub.	82,644
SPORS	1,713
JRS	392
VaLORS	10,410
Total	295,345
Retirees /Beneficiaries	94,453
Inactive - Vested	19,814
Inactive - Non-vested	59,141
VRS Overall Impact	468,753

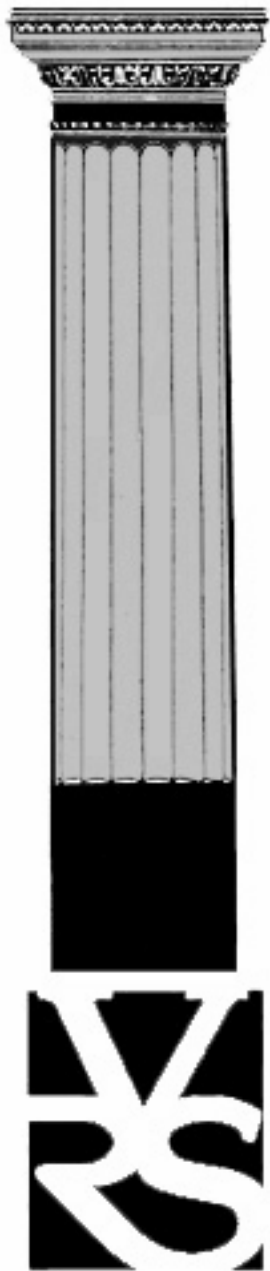
These March 2000 statistics are the most recent data collected.



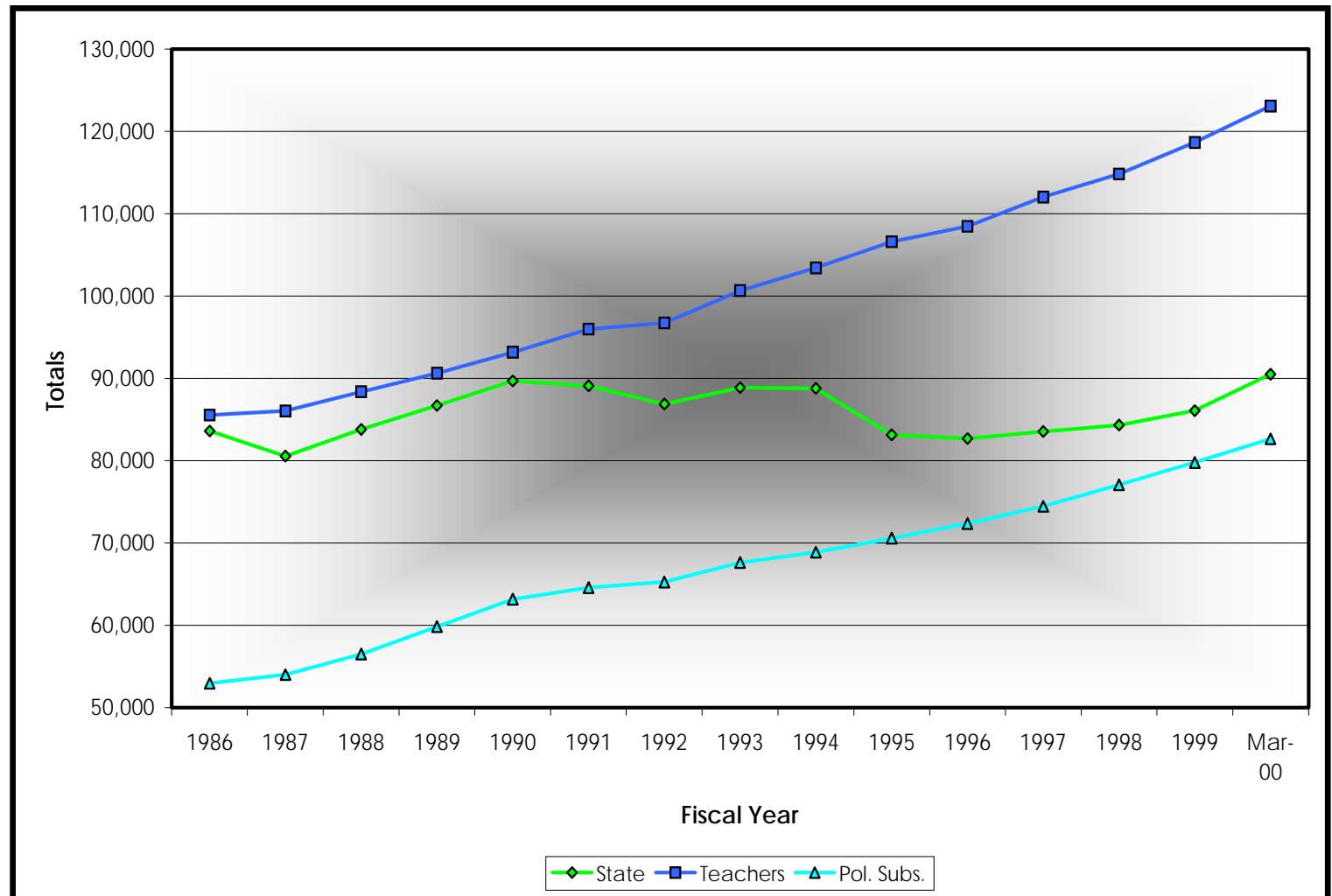
Virginia Retirement System Participating Employers

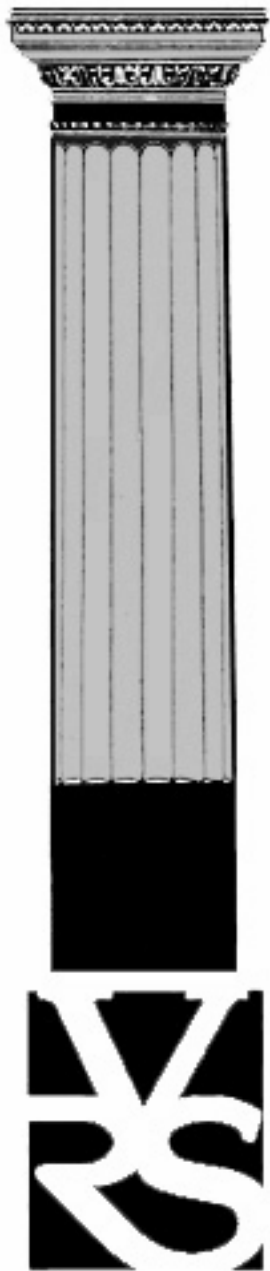
Cities and Towns	139
Counties	92
Special Authorities	146
School Divisions	154
State Agencies	237
<hr/>	
Total	768

These FY99 statistics are the most recent data collected.



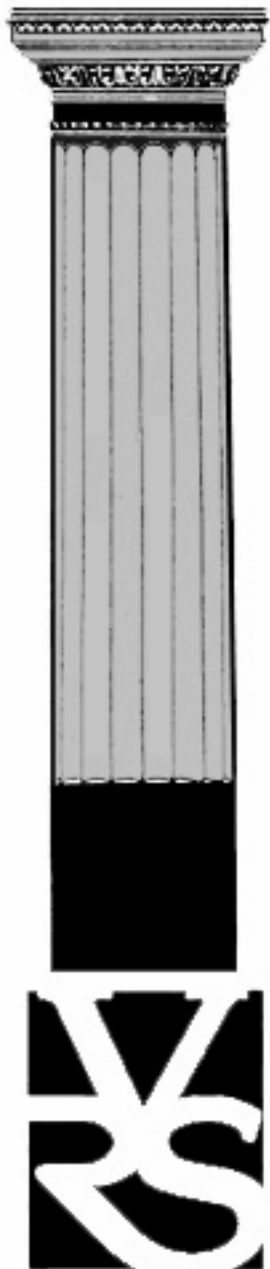
VRS Active Members





VRS FY2000 Strategic Business Objectives

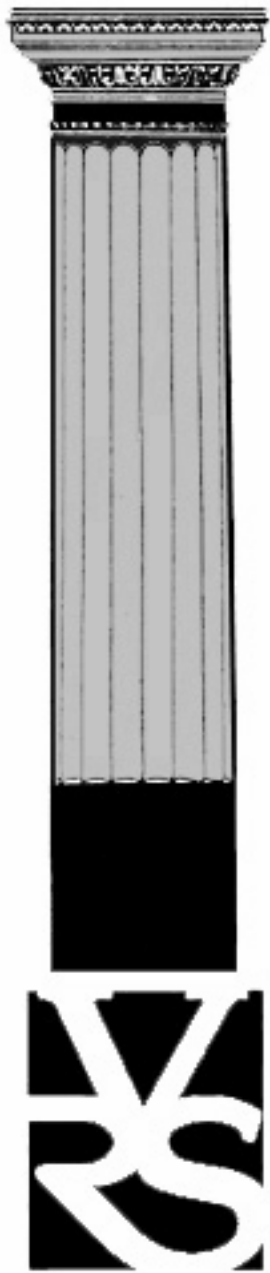
- **Technology availability** schedules for critical business applications and achieve 98.5% availability for each category.
- 95% of employer **payrolls updated** and **posted** within 30 days of due date with 50% of the active membership **transmitted electronically**; the average number of days to process purchase prior service cost letters is 30 days from receipt of completed application.
- 98% of member benefits **processed** in a timely manner: (1) **death claims** - 30 days; (2) **refunds** - 60 days; (3) **retirements** placed on expected payroll provided received 90 days in advance.
- **Information Center** answers 80% of calls within 30 seconds with no more than 15% transferred.
- **Administrative costs** per member will not exceed \$50.
- **Investments meet benchmarks** for the year.



Performance Pay Matrix

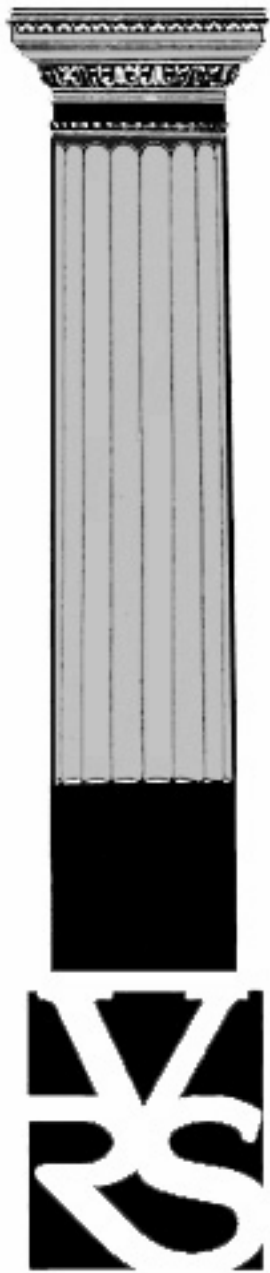
	Exceeds Core Values	Meets Core Values	Does Not Meet Core Values
Exceeds Results	<i>Agency SBOs AND Dept. SBOs</i> 6.25% <hr/> <i>Dept. SBOs or Agency SBOs</i> 5.21% <hr/> <i>Individual Performance</i> 4.17%	<i>Agency SBOs AND Dept. SBOs</i> 4.17% <hr/> <i>Dept. SBOs or Agency SBOs</i> 3.48% <hr/> <i>Individual Performance</i> 2.78%	No performance increase
Meets Results	<i>Agency SBOs AND Dept. SBOs</i> 4.17% <hr/> <i>Dept. SBOs or Agency SBOs</i> 3.48% <hr/> <i>Individual Performance</i> 2.78%	<i>Agency SBOs AND Dept. SBOs</i> 2.78% <hr/> <i>Dept. SBOs or Agency SBOs</i> 2.31% <hr/> <i>Individual Performance</i> 1.85%	No performance increase
Does Not Meet Results	No performance increase	No performance increase	No performance Increase – Performance probation

INDIVIDUAL PERFORMANCE
 + **DEPARTMENT GAINSHARING (25% MULTIPLIER)**
 + **AGENCY GAINSHARING (25% MULTIPLIER)**
 = **TOTAL PERFORMANCE PAY**



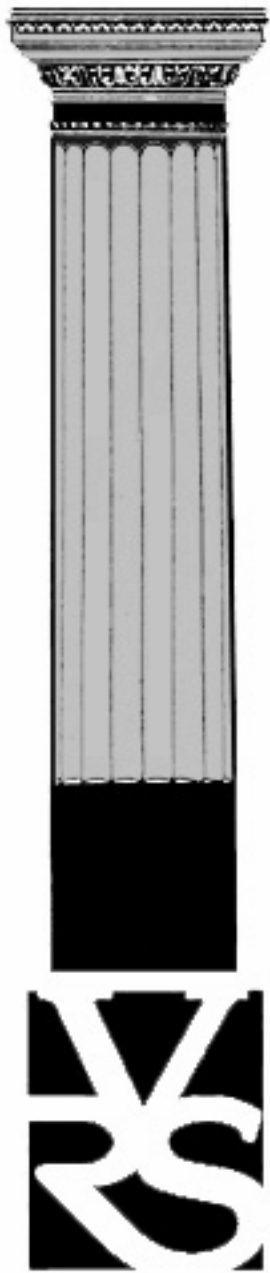
Continuous Efforts at Self-Improvement

- P.I.T. Crews
- Agency Mission and Vision Statements
- Agency Core Values
- Agency Strategic Business Objectives
- Departmental SBOs
- Benchmarking
- Activity-based Costing



U.S. Senate Productivity & Quality Award

VRS the recipient of the S P QA
Award for Outstanding Achievement
in 1997, 1998 & 1999



International Benchmarking

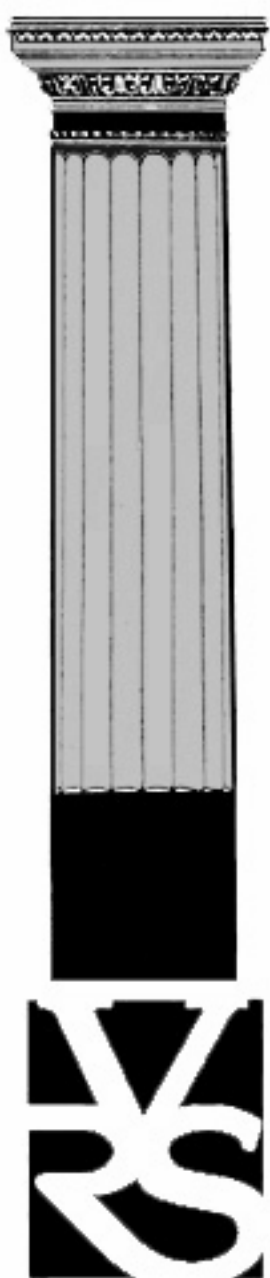
We are comparing ourselves to other large, quality public pension systems, both domestic and foreign.

Benefits achieved include being able to adapt "Best Practices" of others to suit our own needs.

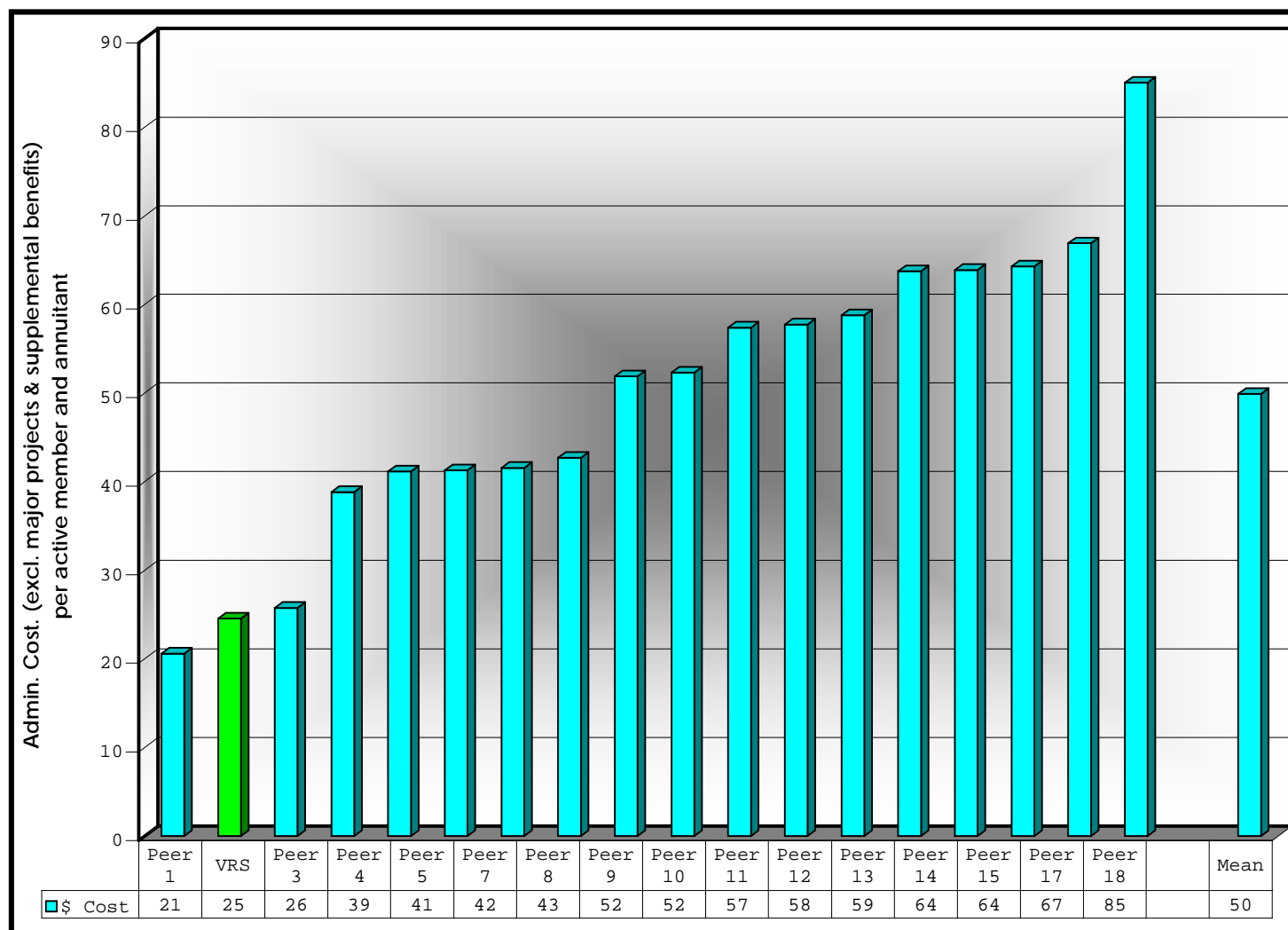
Last year, 25 leading international pension systems participated in the 1999 Benefit Administration Benchmarking project.

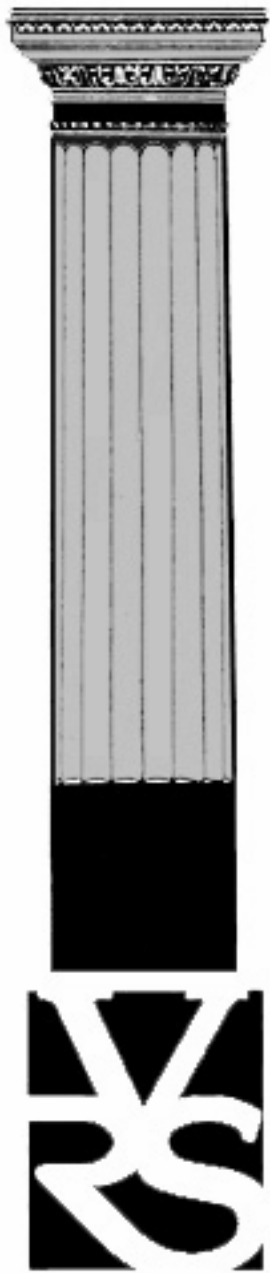
1999 Participants	
<u>United States</u>	<u>Canada</u>
CalPERS	HOOPP
CalSTRS	Ontario Teachers
Colorado PERA	
Illinois TRS	<u>Australia</u>
KPERS	ComSuper
MOSERS	
New Jersey DP&B	<u>The Netherlands*</u>
NYS LRS	ABP
Ohio PERS	Akzo Nobel
Ohio STRS	MN Services / BPMT
Oregon PERS	Pensioensfonds PGGM
Texas ERS	SFB / Bpf-bouw
Virginia RS	SPF Beheer bv
Washington State DRS	Stichting Pensioenfonds Hoogovens
Wisconsin DETF	

* We have not yet completed cleaning and analyzing the data from the 7 Dutch Systems.



Administrative Costs Per Member *(second lowest of 18 peers)*



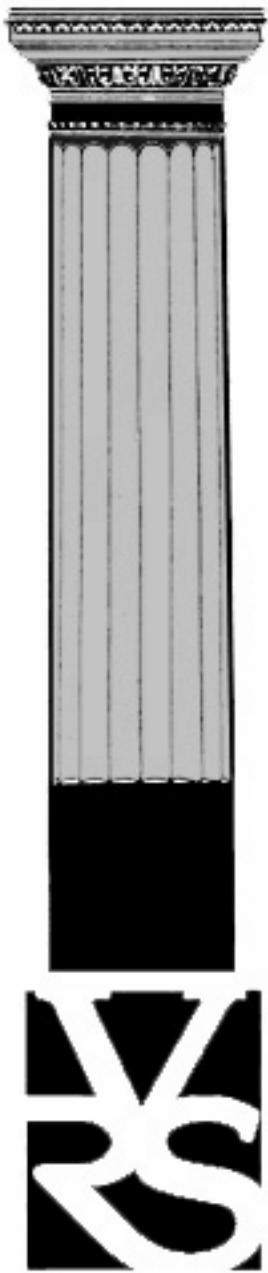


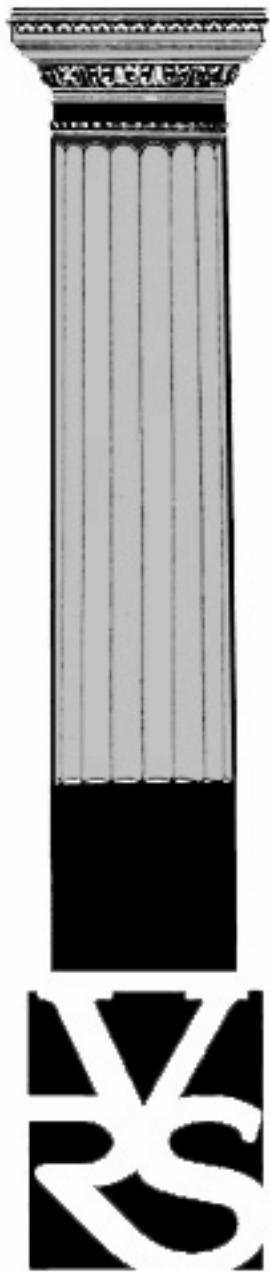
The “Real” VRS Story

- The average retiree retires at age 62
- Average life expectancy is 20 years
- Two years paid by Employee Contributions
- Four years paid by Employer Contributions
- 14 years paid for with Investment Earnings

1994 JLARC Recommendations

- Strengthen investment policies and performance
 - » Adopt prudent person standard
 - » Adopt investment policy statement and re-evaluate investment policies
 - » Strengthen asset allocation process
 - » Evaluate internal staff size and external managers in order to optimize

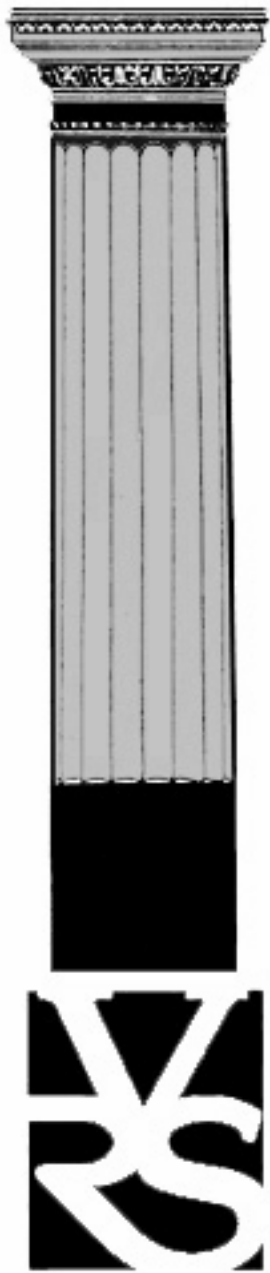




Prudent Person Standard

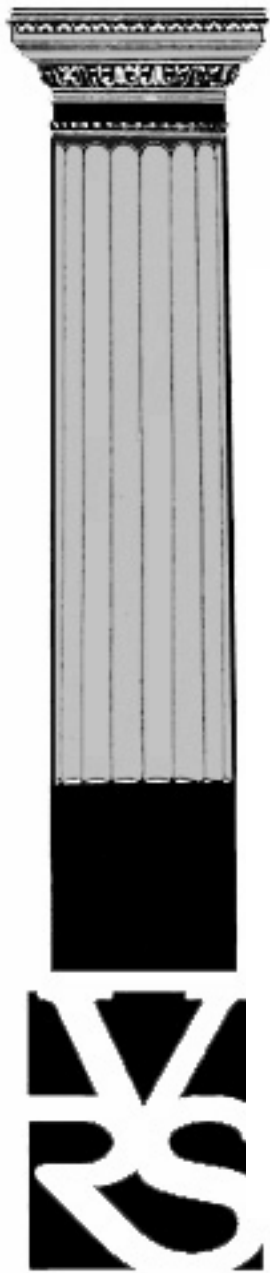
- **§ 51.1-124.30. Board as trustee of funds; investments; standard of care; liability for losses.**

C. The Board shall discharge its duties with respect to the Retirement System solely in the interest of the beneficiaries thereof and shall invest the assets of the Retirement System with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board shall also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly not prudent to do so.

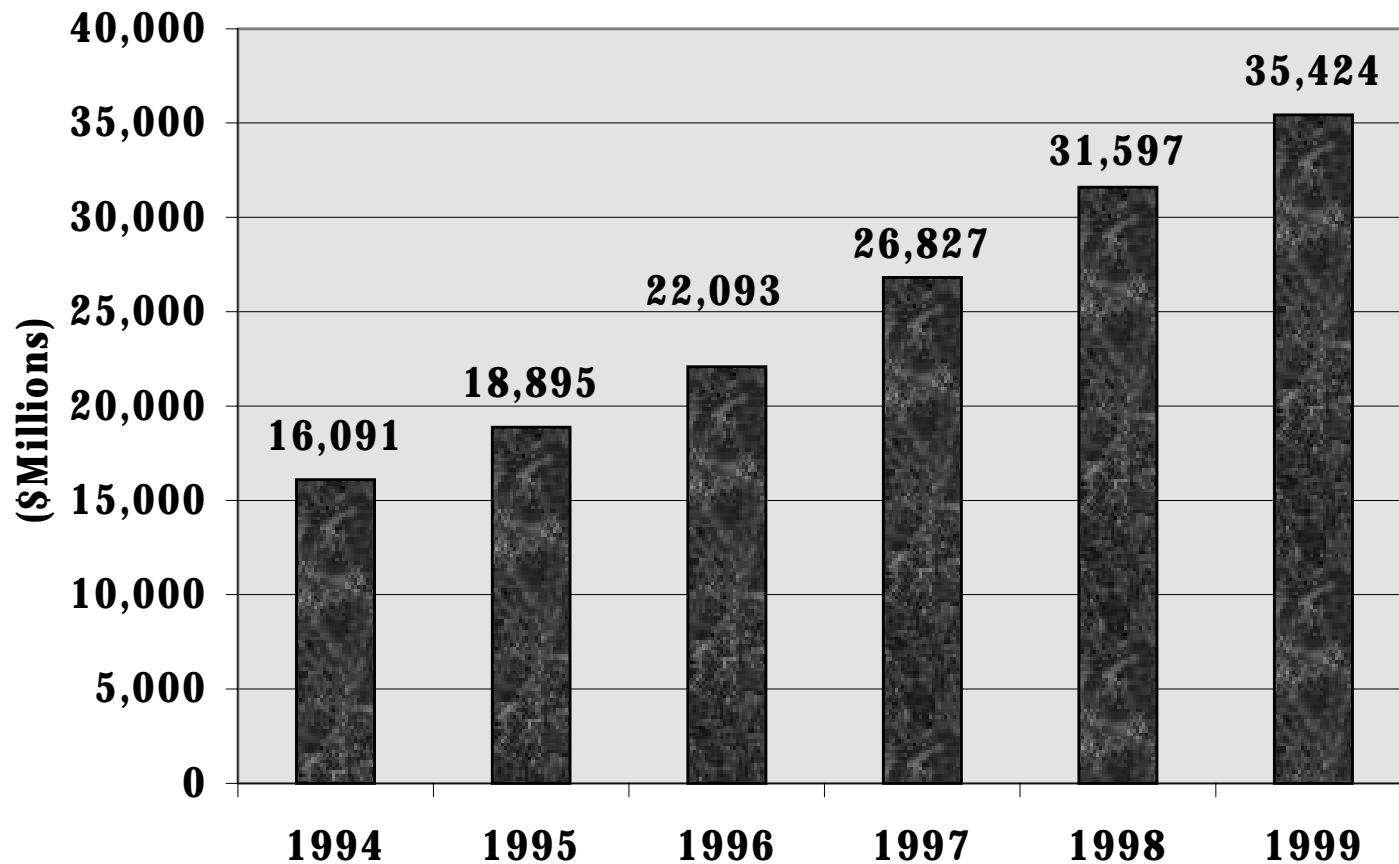


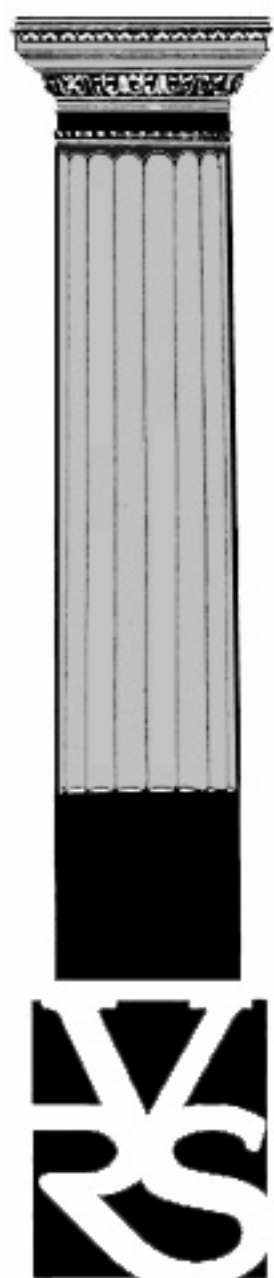
VRS Investment Policy Statement

- The Investment objective of the VRS portfolio is to maximize long term investment returns while targeting an acceptable level of risk. Primary risk measures are volatility in the plan's assets, funded status and contribution rates.



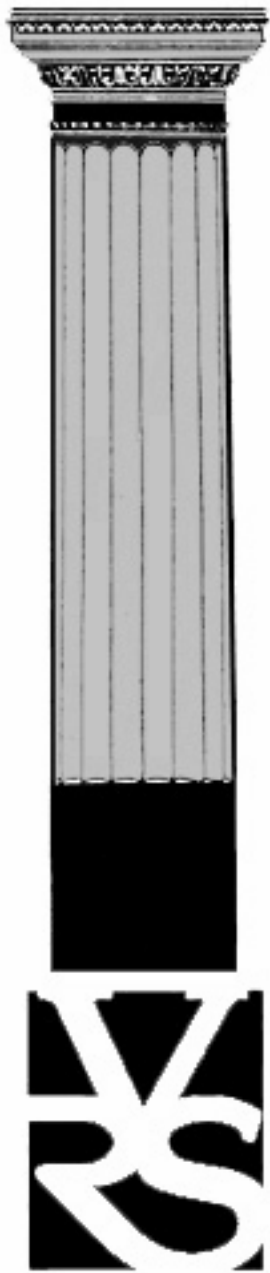
Increase in Total Fund Assets





Virginia Retirement System 1994 - 2000

- Trustees focus on strategic direction
- Eliminate managed futures
- Eliminate collar
- Eliminate RF &P
- Eliminate market timing
- Curtail the use of consultants
- Improve relationship with legislature
- Keep "name" out of newspapers



Virginia Retirement System 1994 - 2000

- Concentrate - reduce number of managers
- Reduce fees
- Increase passive indexing
- Increase internal management
- Develop & implement fair and "competitive" compensation package
- Strengthen staff

Reduce Number of Managers

Managers – June 1994

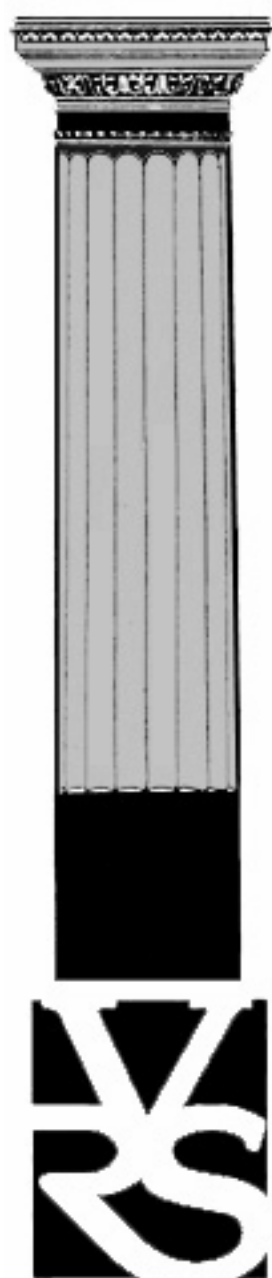
US E quity	31
Non-US E quity	8
Fixed Income	9

Total 48

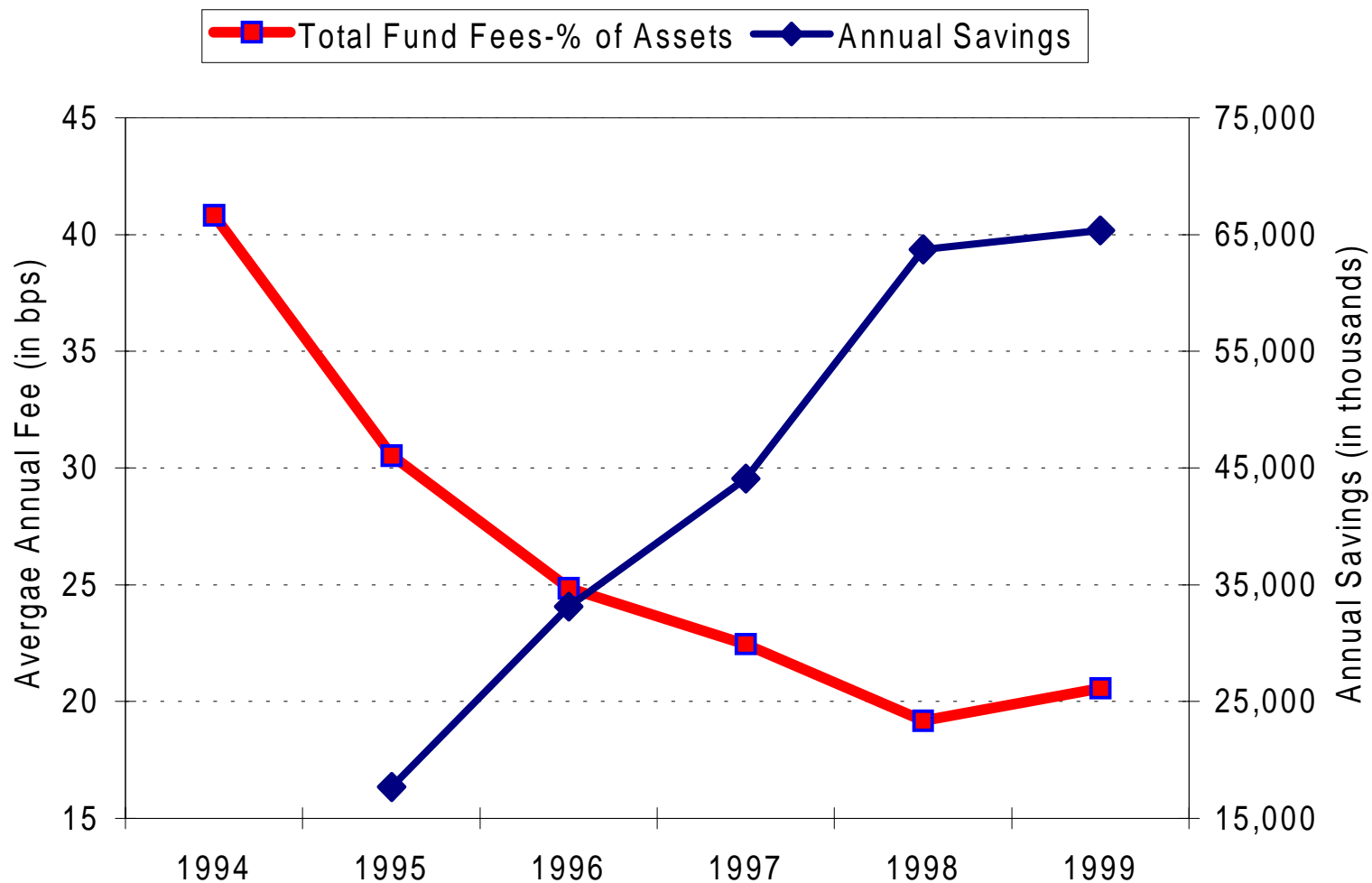
Managers – April 2000

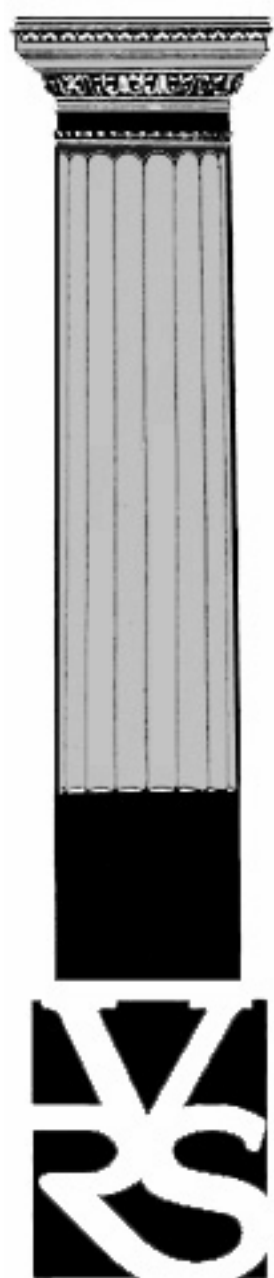
US E quity	12
Non-US E quity	6
Fixed Income	5

Total 23

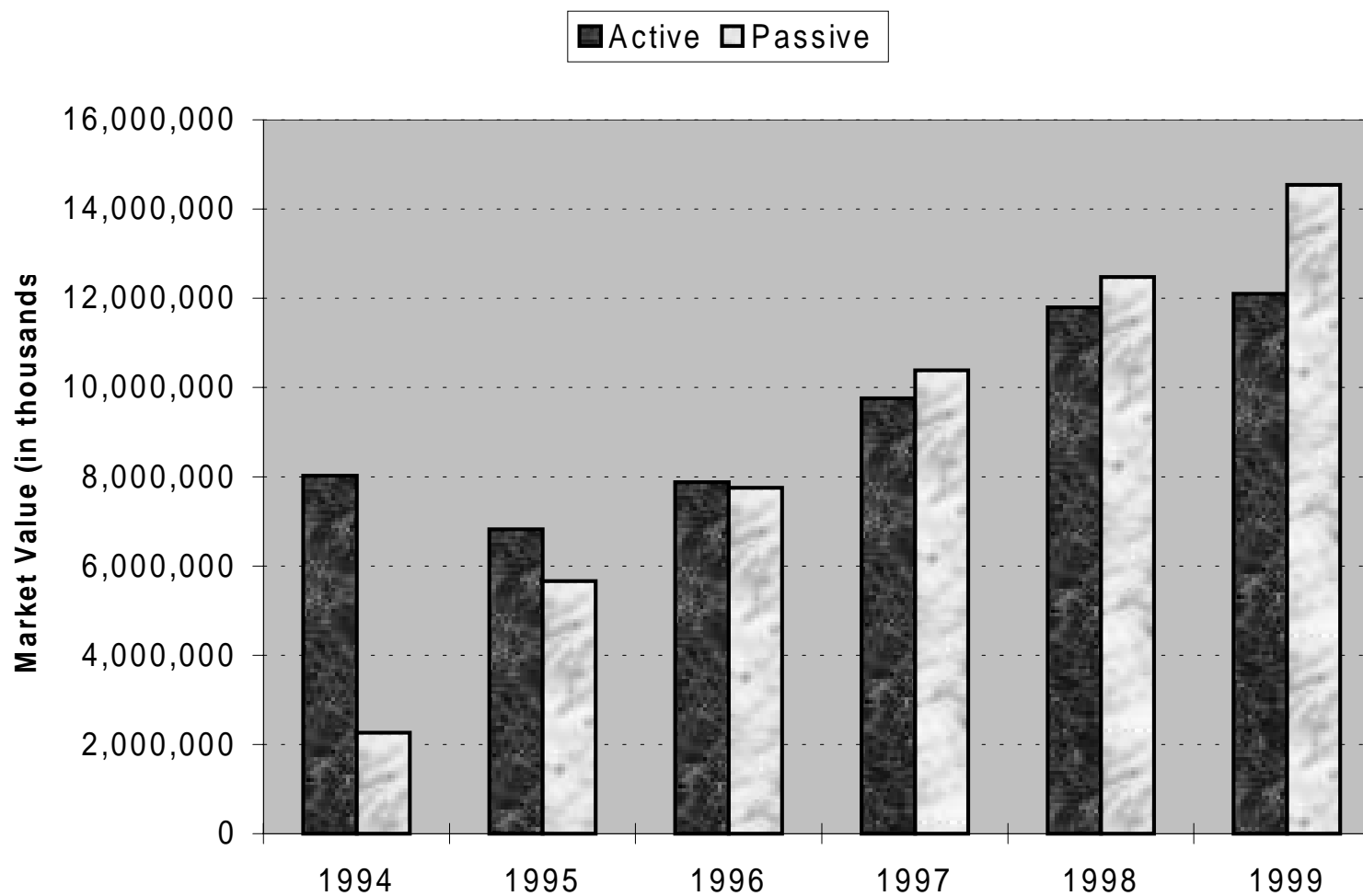


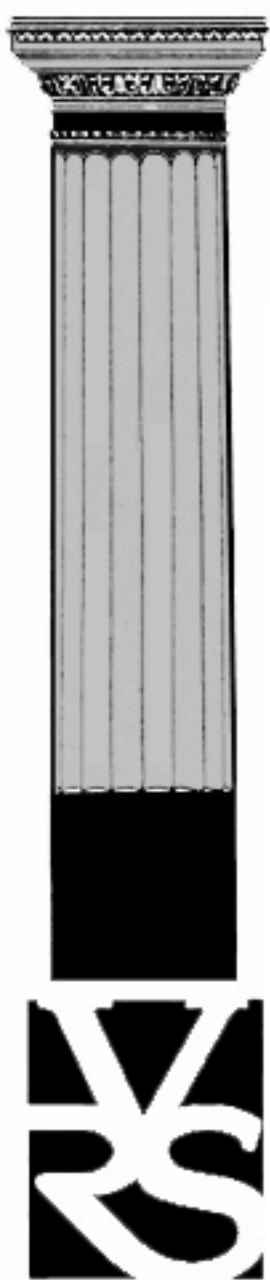
Significant Reduction in Management Fees



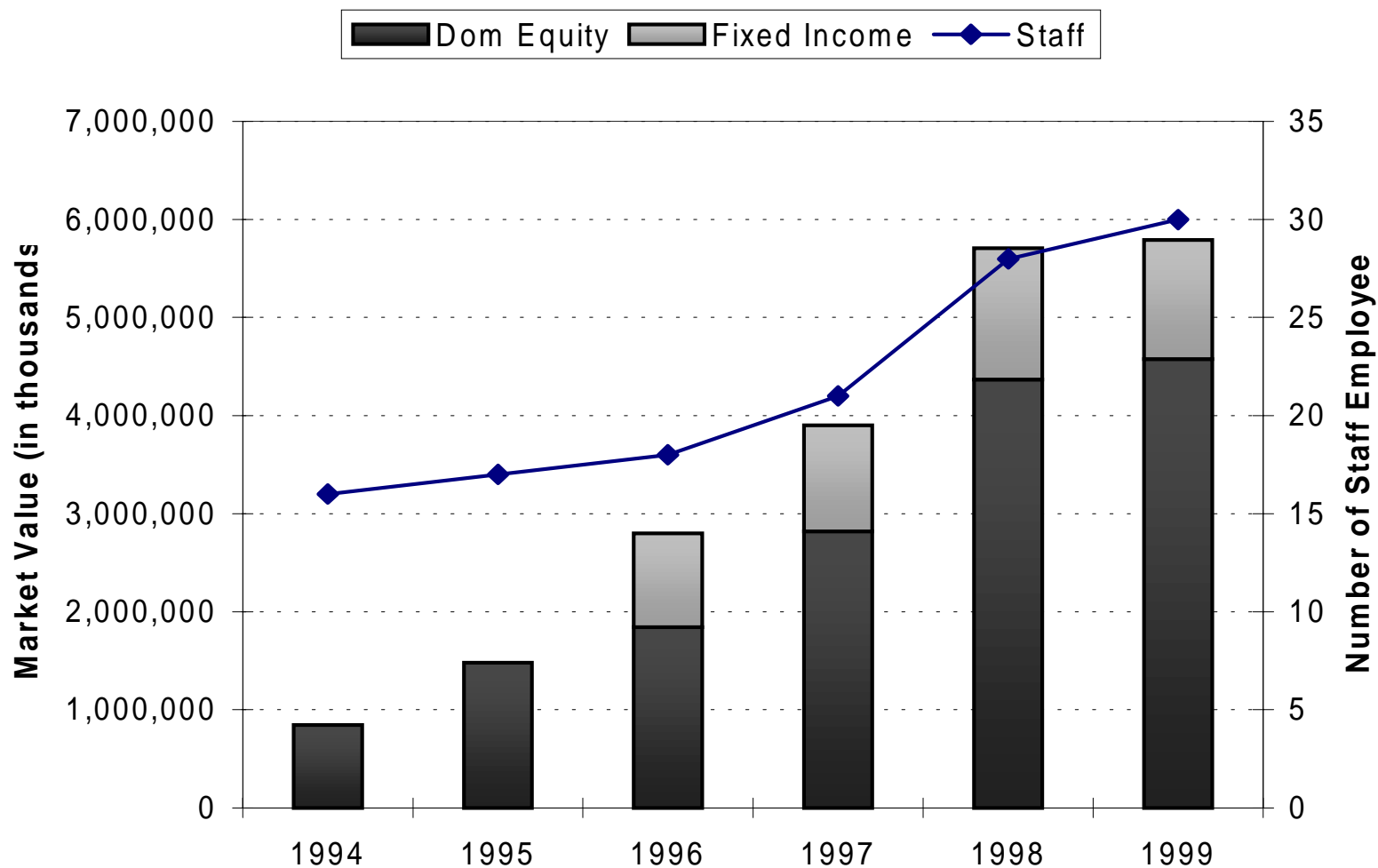


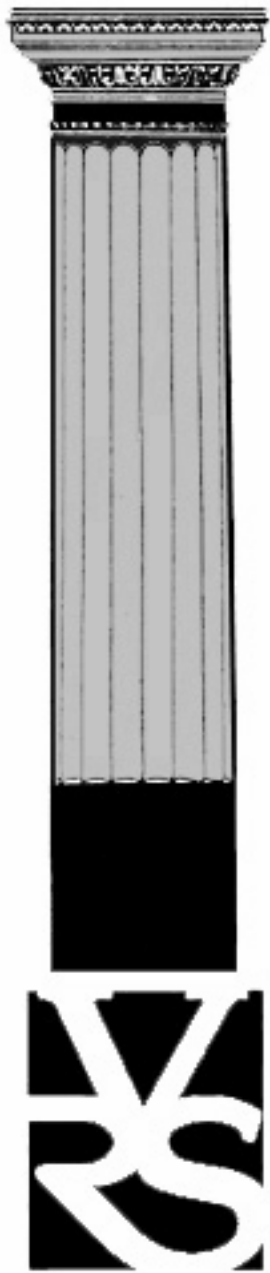
More Assets under P Passive Management



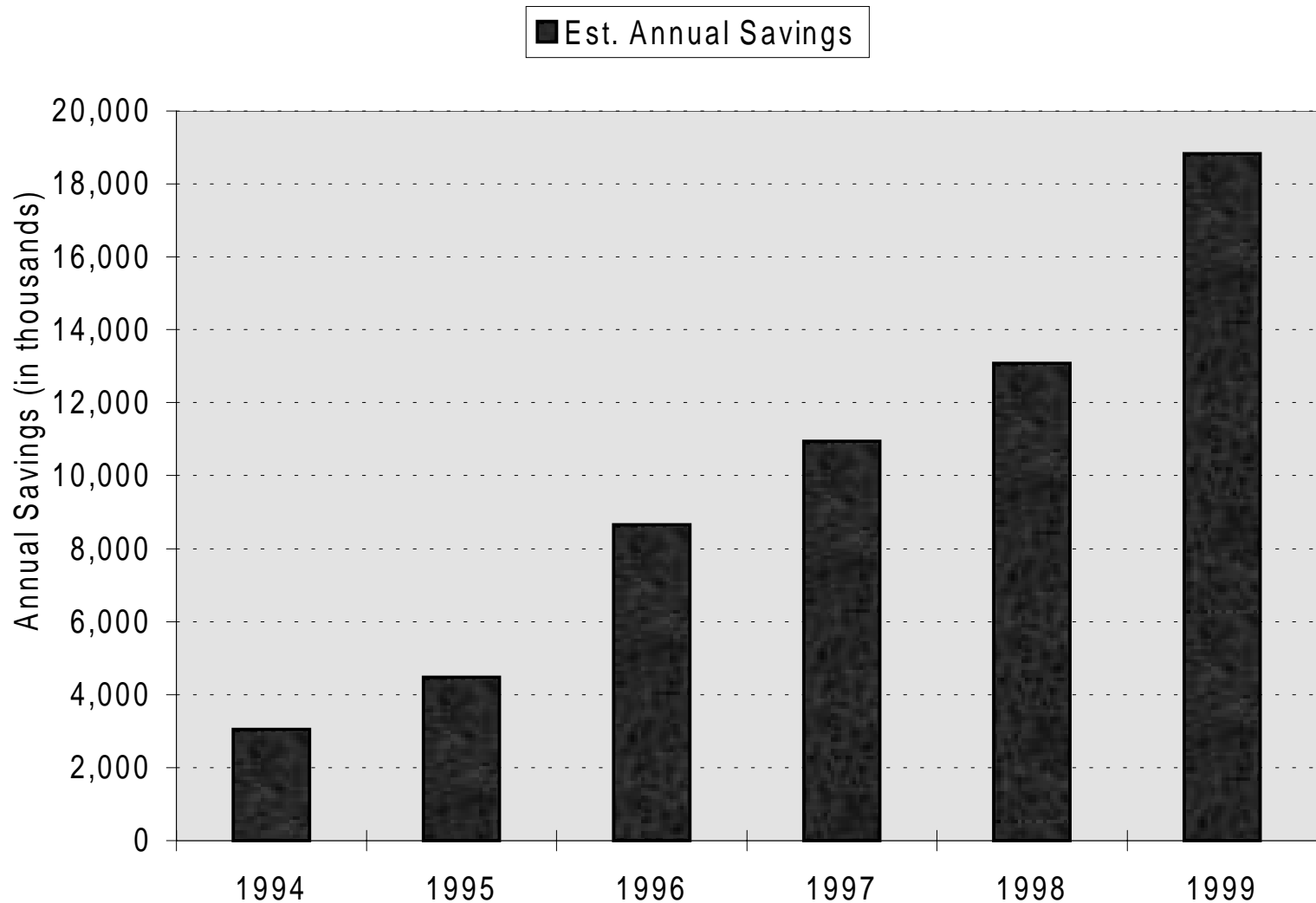


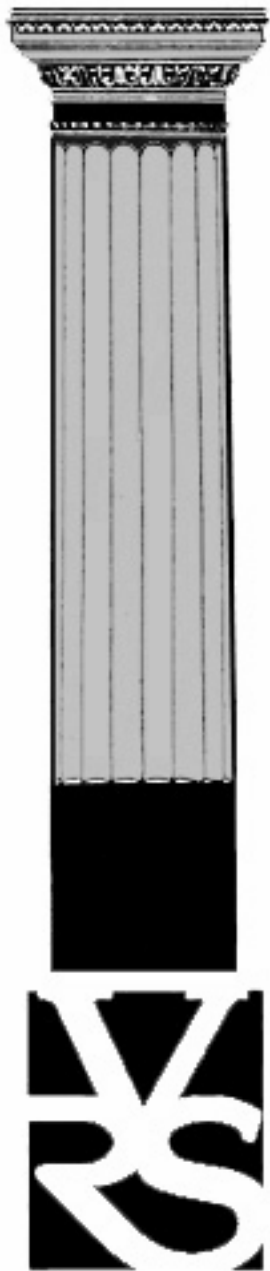
More Assets Managed Internally, Staffing Has Increased





Significant Cost Savings on Internally Managed Assets vs. External Actively Managed Assets

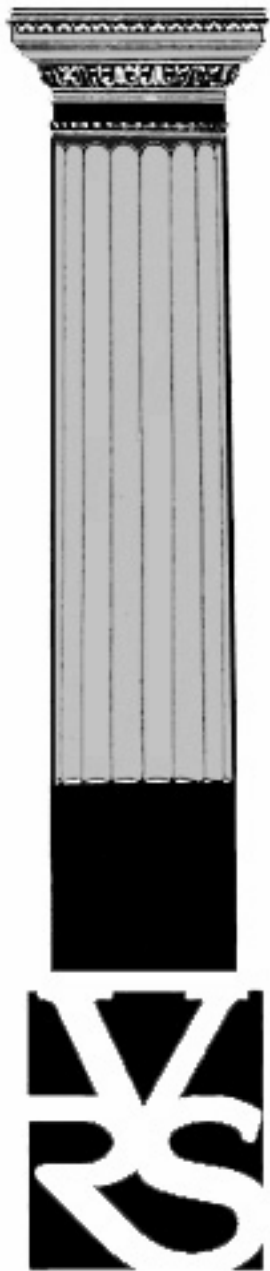




Strengthen Professional Staff

- Investment Staff (1994): 22
- Investment Staff (2000): 30

	<u>1994</u>	<u>2000</u>
CIO	1	1
Equity	10	9
Fixed Income	1	5
Alt. Inv.	6	5
Operations	0	7
Administration	4	1
Deferred Comp	0	2
	<hr/>	<hr/>
	22	30

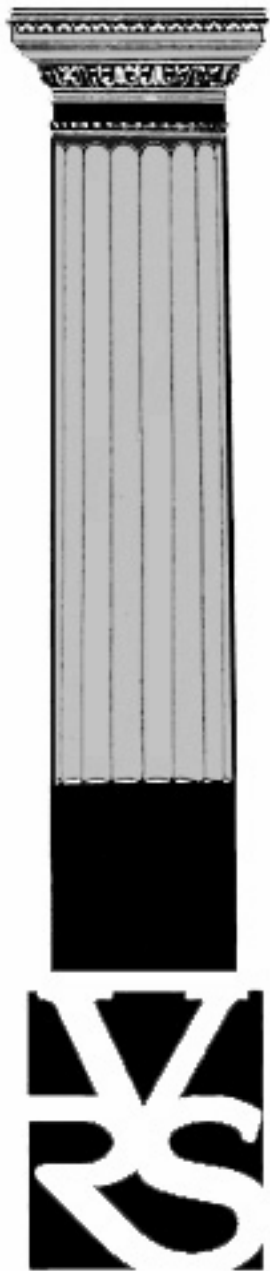


VRS Performance

*(December 31, 1999)**

	<u>10-year</u>	<u>5-year</u>	<u>1-year</u>
Total Fund	13.0 %	19.0 %	18.3 %
US Equity	17.1 %	25.7 %	18.2 %
Fixed Income	7.9 %	7.9 %	-0.6 %
Actuarial Assumption	8 %	8 %	8 %

* Annualized rate of return

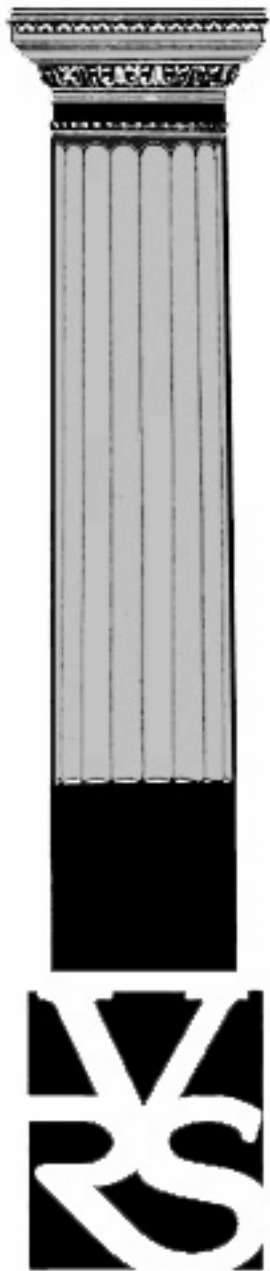


VRS Performance

(April 30, 2000)*

	<u>10-year</u>	<u>5-year</u>	<u>1-year</u>
Total Fund	13.6 %	17.7 %	14.7 %
US Equity	17.7 %	23.0 %	10.0 %
Fixed Income	8.3 %	6.9 %	1.2 %
Actuarial Assumption	8 %	8 %	8 %

* Annualized rate of return



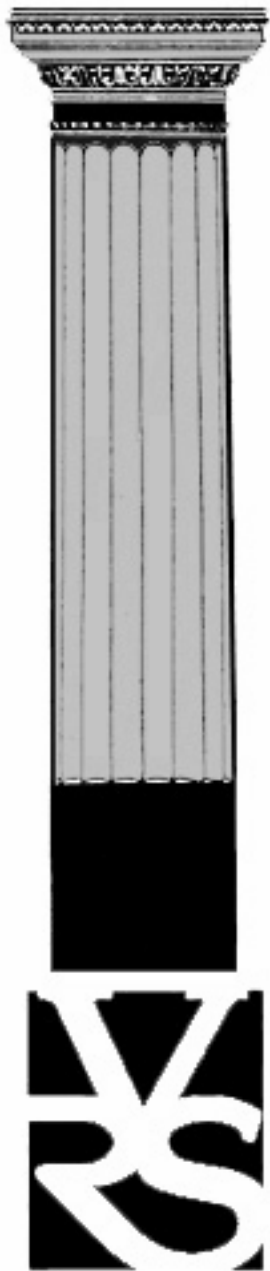
VRS Asset Allocation

1994

- 45% US Equity
- 10% Non-US Equity
- 27% Global Fixed Inc
- 6% Private Equity
- 9% Real Estate
- 3% Managed Futures

2000

- 47% US Equity
- 15% Non-US Equity
- 25% Global Fixed Inc
- 9% Private Equity
- 4% Real Estate

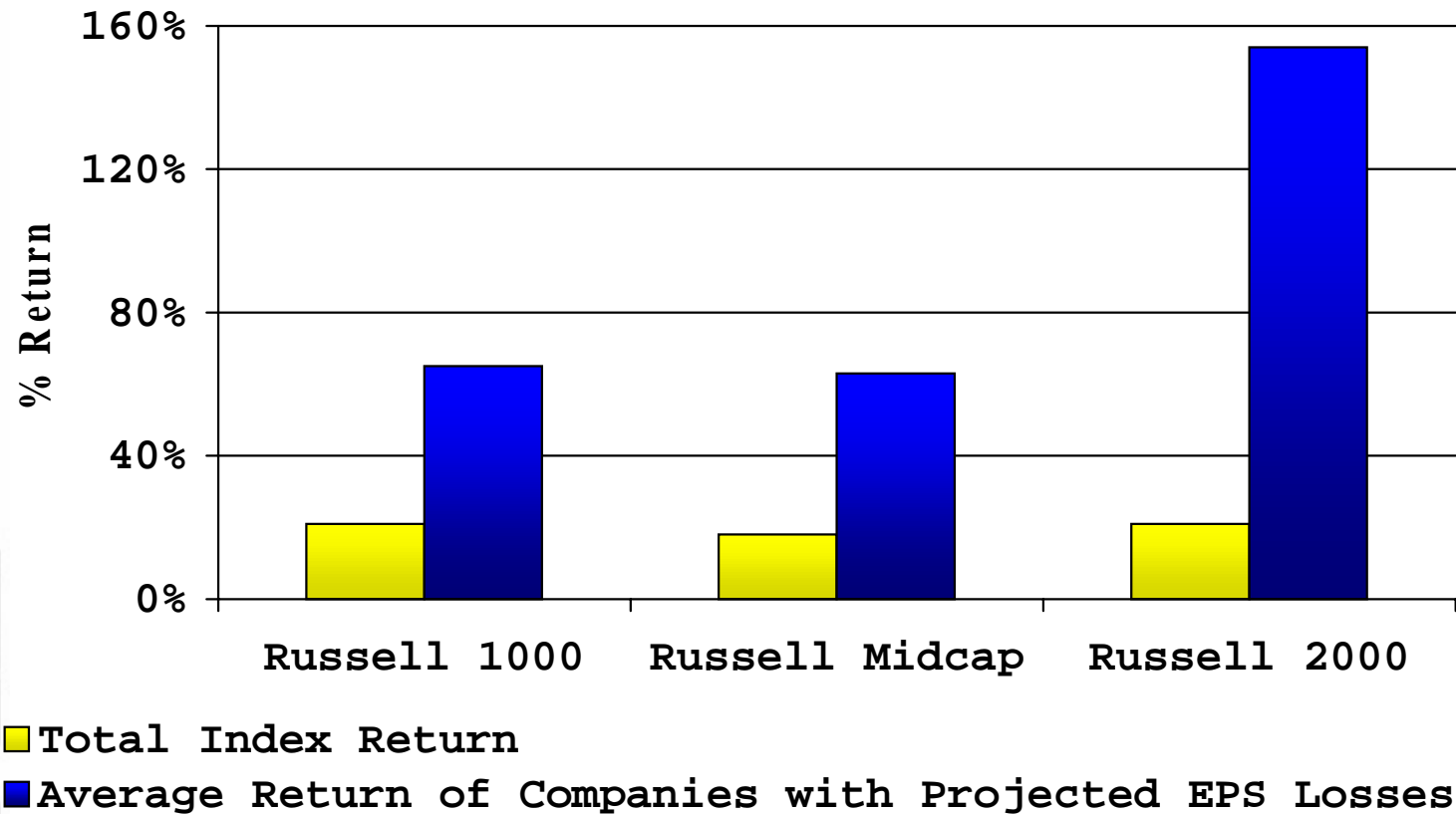


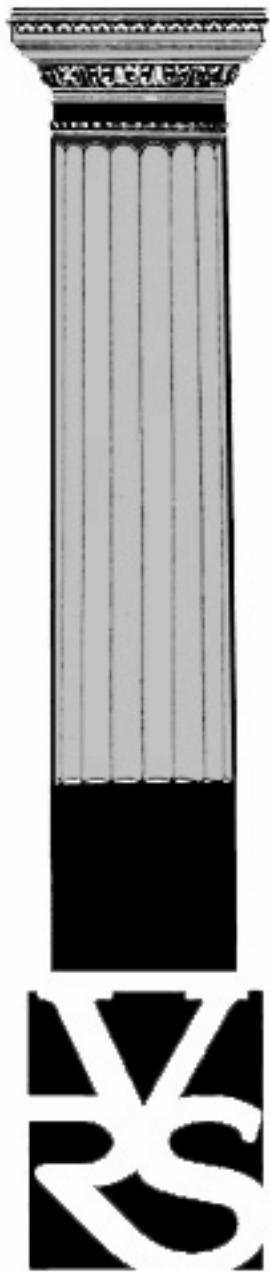
Major Decision Points

- Asset Allocation
 - » Appropriate asset classes
 - » Asset/Liability study
- Individual Program Structure
 - » Appropriate benchmark
 - » How much passive?
 - » How active?
 - » How much internal?
 - » Specific issues

Profitability Does Not Equal Return

1999 Returns by Profitability

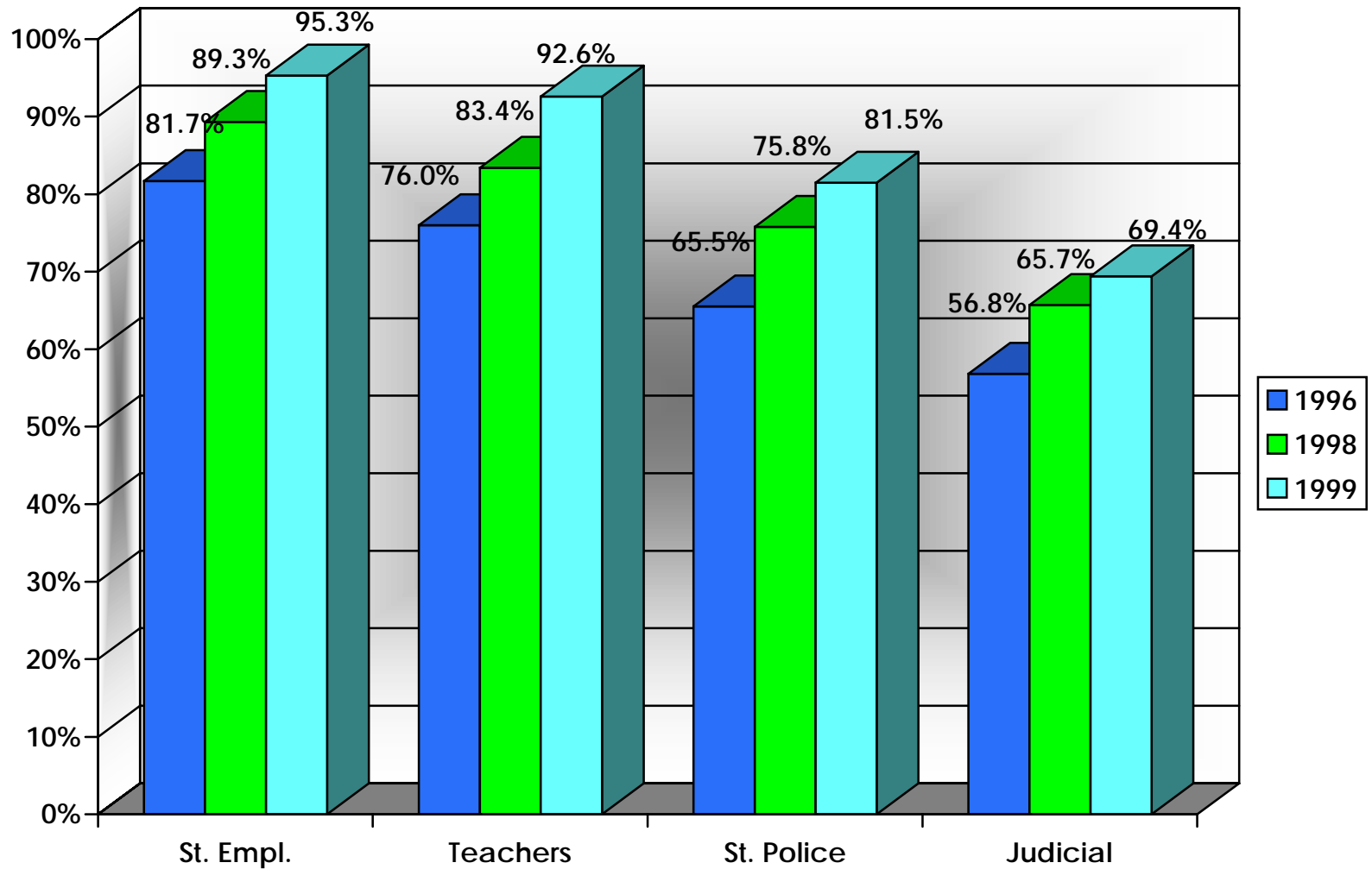


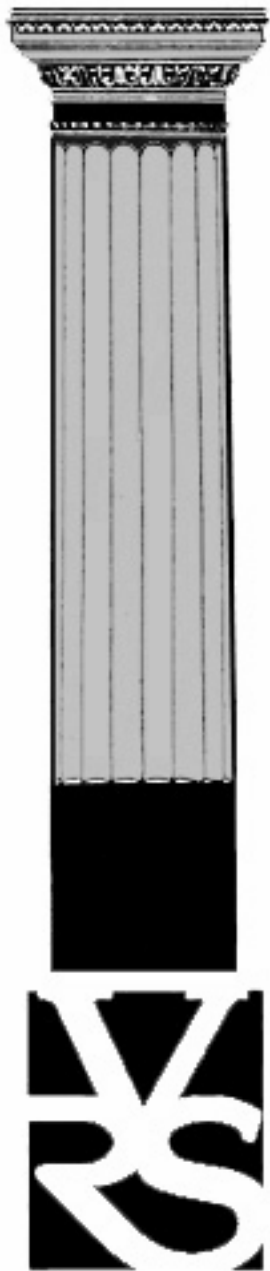


Looking Forward

- Actuarial process
 - » Focus on liabilities
 - » Culmination of collaborative effort
 - VRS Board, JLARC, Actuary, VRS staff
 - » Estimated completion 1st quarter 2001

Actuarial Funded Ratio



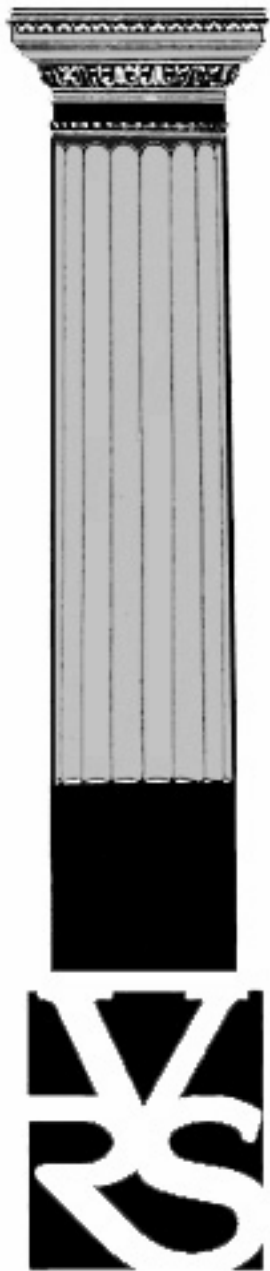


Summary of Recommended Contributions with Full COL A Prefunding

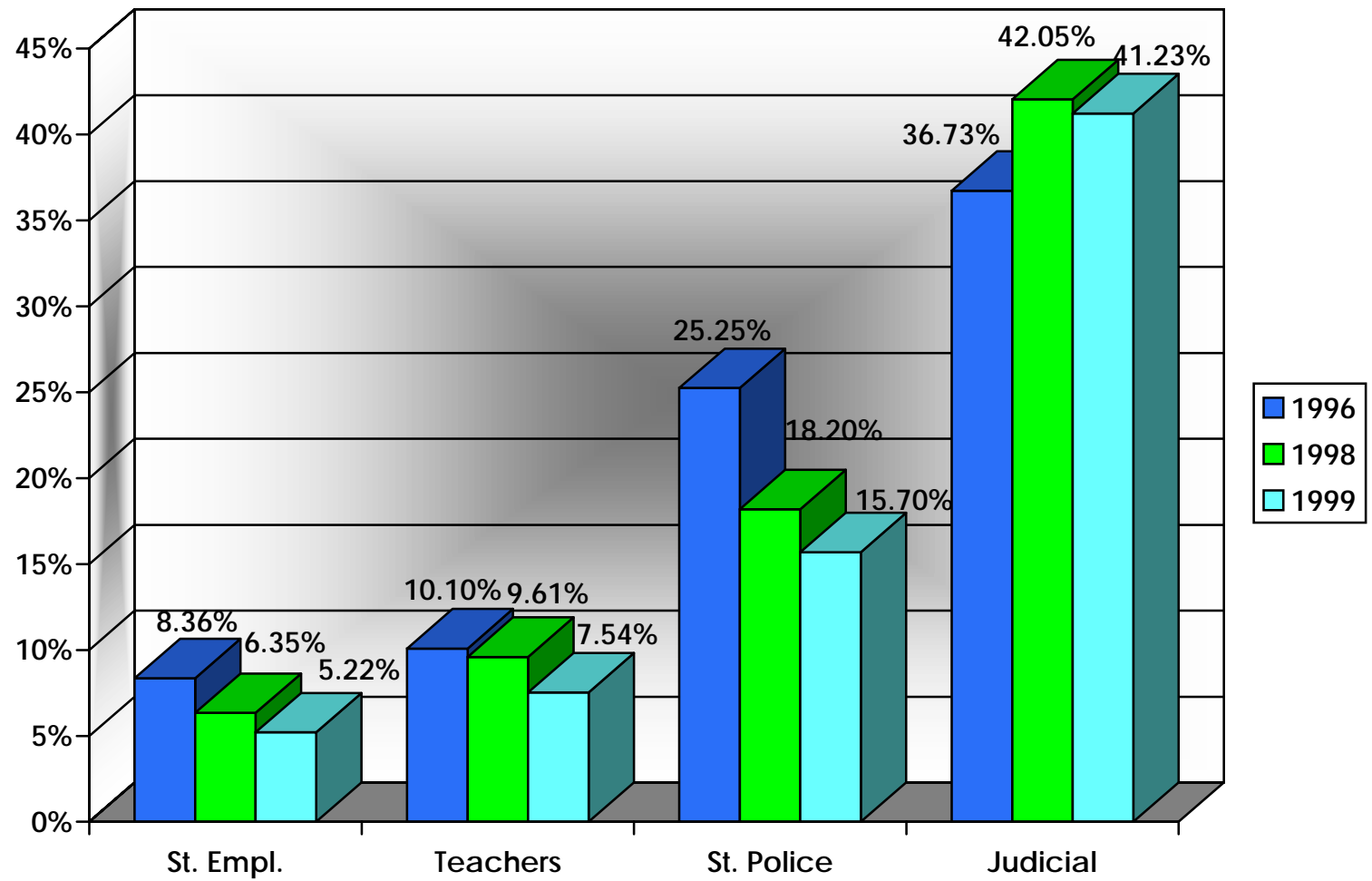
	1999	1998	1996
State Employees	5.22%	6.35%	8.36%
Teachers	7.54%	9.61%	10.10%
State Police Officers	15.70%*	18.20%	25.25%
State Judges	41.23%**	42.05%	36.73%

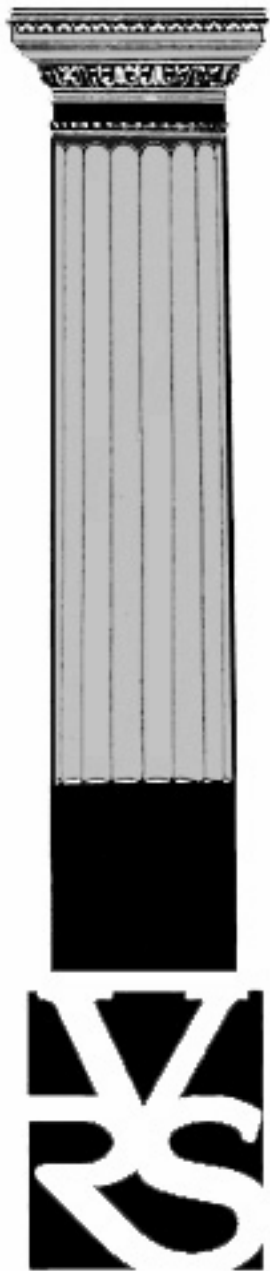
* Board specified rate is 25% of payroll until 90% funded.

** Board specified rate is 45% of payroll until 90% funded.



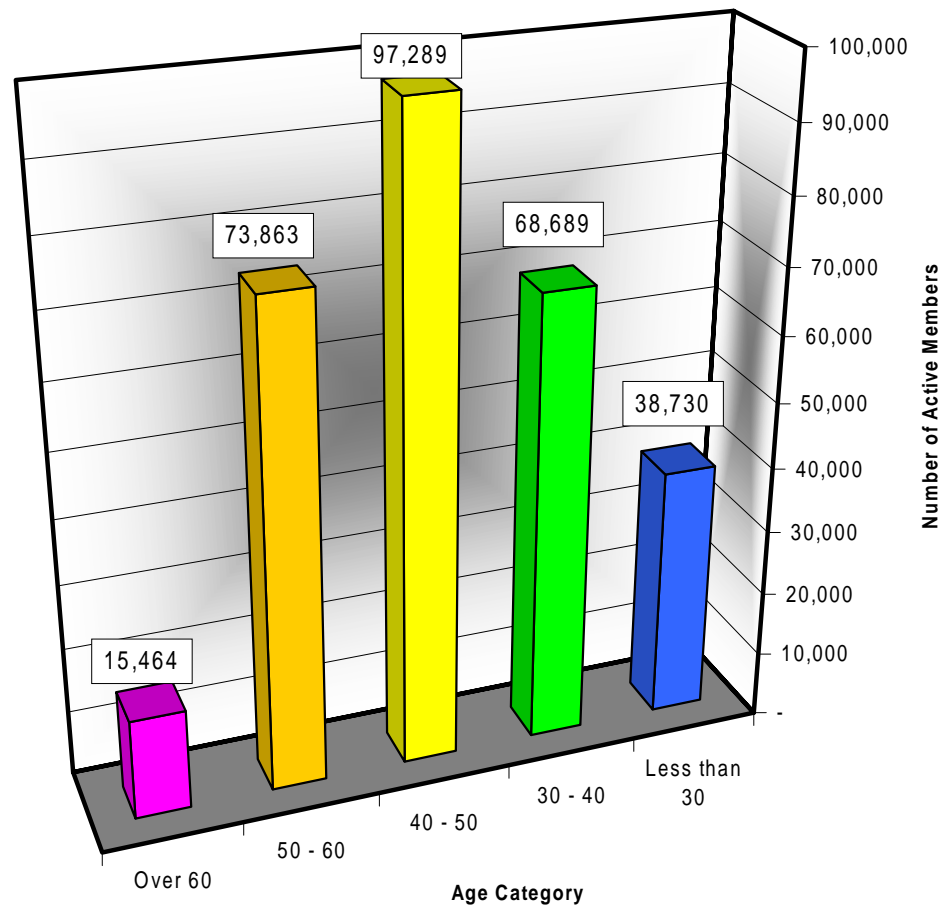
Contribution Rates With Full Prefunding *(Excluding Health Credit)*

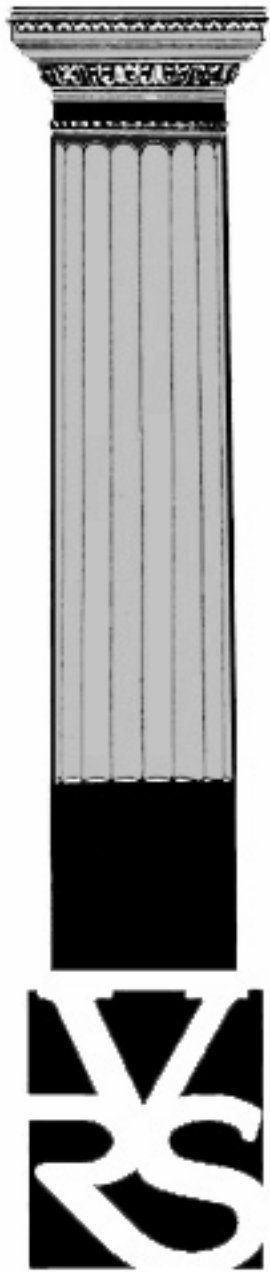




Age Categories of Active Members

The Wave is Coming!!





Any Questions??